

FEB - 8 1994

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

ORIGINAL

In the Matter of)
Simplification of the Depreciation) CC Docket No. 92-296
Process)

REPLY OF BELLSOUTH

BellSouth Telecommunications, Inc. ("BellSouth") respectfully submits its reply to the Oppositions to BellSouth's Petition for Reconsideration (PFR) filed on December 6, 1993 in the above-referenced docket. The opposition comments are replete with inaccuracies and purported conclusions without record support in this proceeding. BellSouth urges the Commission to reject these opposing views and reconsider its decision for the reasons set forth herein and in its PFR.

BellSouth has stated in its PFR that the Commission did not directly address the applicability of the Price Cap Carrier Option (PCCO), with the safeguards adopted for AT&T, to the Price Cap Local Exchange Carriers (LECs). PFR at pp. 2-3 BellSouth also indicated that even though the FCC adopted a much different PCCO than the option originally included in its Notice, one of the reasons for denying the PCCO for the LECs was state opposition to the original proposal, and not the one ultimately adopted by the Commission. PFR, at pp. 4-5. None of the Opposition Comments have traversed this crucial point, and it remains

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as a critical flaw in the FCC's rationale for its decision not to allow the LECs to utilize the PCCO.

In several of the opposition comments, parties still base their objections on the erroneous assumption that the PCCO would allow price cap carrier LECs to file depreciation rates with no supporting data. The California Cable Television Association (CCTA) also incorrectly states that "Under the Price Cap Carrier option, carriers would have absolute flexibility and control over depreciation."¹ The National Association of Regulatory Utility Commissioners appears similarly confused on this point, stating that:

The PCCO, as proposed, would have allowed price cap carriers to file depreciation rates with no supporting data. After the proposed rates are filed, the FCC would issue a Public Notice seeking comments on the proposed rates, and presumably prescribe depreciation rates based upon the "record" in the proceeding.²

BellSouth and the other LECs never suggested that they not provide information necessary for the Commission to determine how the depreciation rate for each account was derived. In fact, in its initial comments BellSouth offered to provide substantially the same supporting data now required of AT&T under the PCCO, which would allow any party to use the remaining life depreciation formula used by the Commission to calculate the depreciation rates and the

¹CCTA at p. 7.

²NARUC at p. 4.

accruals by account and by jurisdiction.³ The supporting information offered to be provided by BellSouth is the same as that allowed to be provided by AT&T and listed in AT&T's opposition (AT&T) to the PFRs.⁴ BellSouth remains willing to provide such information to support its depreciation filings. Moreover, the data is sufficient to determine the reasonableness of depreciation rates, and could be equally applied to the LECs and AT&T. Therefore, the Commission should revisit its decision to deny the PCCO for price cap carrier LECs.

MCI takes the erroneous position that LEC use of more rapid depreciation, which represents a return of past stockholder investment in LEC assets, to fund infrastructure development would work to the detriment of LEC ratepayers.⁵ To the contrary, the information highways will be built for all customers and will be used to provide all such customers with advanced telecommunications capabilities. Furthermore, the decision to invest in new facilities and plant is made separately from decisions on the recovery of past capital investment. While the recovery of the appropriate amount of past capital may make the investment in new capital less risky, the two issues are distinctly different and should not be confused as suggested by MCI.

³BellSouth Comments at pp. 21-23.

⁴AT&T at p. 3, footnote 4.

⁵MCI at p.2.

Not surprisingly, the IXC oppositions claim that, notwithstanding the emergence of competition in many segments of the LECs markets, it is only the interexchange access segment that is relevant in testing "competition."⁶ This position is both disingenuous and self-serving. IXC oppositions also claim the LECs failed to "point to a single event that has changed the interstate access environment since the initiation of this proceeding."⁷ Even if this statement were true, which it is not, MCI has itself offered such examples in its opposition filing. In particular, the MCI/Jones/Scientific Atlanta effort mentioned in MCI's opposition announced MCI's intention to rapidly move toward entering the local exchange and exchange access business, beginning in Atlanta, Georgia, BellSouth's largest metropolitan area in the state.

Although MCI downplays its aggressive strategy, its announced plans are currently underway and these are events not known at the time of the initiation of this docket. Now is the time for the FCC to begin the flexibility and streamlining necessary to enable the LECs to respond to the increasing technological and market changes in the industry.

If the Commission decides not to reconsider allowing the PCCO for LECs, then BellSouth urges the Commission to adopt the modifications to the Basic Factor Range Option

⁶MCI at p. 4; AT&T at p. 6.

⁷MCI at p. 4.

(BFRO), as set forth in the Petition for Reconsideration filed by United States Telephone Association (USTA).⁸ These modifications will enable the FCC to achieve more of its depreciation simplification goals than under the BFRO as currently constructed. None of the parties seriously disagreed with the proposed modifications to the BFRO. In addition, the Colorado Public Utilities Commission (CPUC), in its reply comments on the Order Inviting Comments (OIC) (FCC-93-492) in this docket, supported the ability of the LECs to move the Future Net Salvage (FNS) parameter within the range "without submitting a detailed study"⁹ if the corresponding projection life was within the range on any accounts. CPUC also correctly notes that there would be minimal effect on the depreciation rate for any outlier moves to the nearest value or point within the range.¹⁰ NARUC noted that the modifications to the BFRO were substantially the same as those presented during the comment phases of this docket.¹¹ NARUC also suggested that the FCC might address these suggested modifications in conjunction with its consideration of comments filed in response to the FCC's November 12, 1993 Order Inviting Comment¹² in this

⁸USTA at pp. 8-15.

⁹CPUC Reply Comments, at p. 9.

¹⁰Id.

¹¹NARUC at p. 5.

¹²NARUC at p. 9, footnote 6.

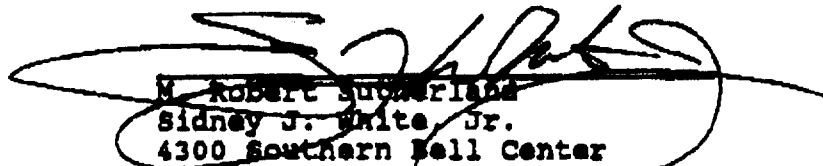
docket. Although NARUC expressed concern over lack of supporting data to support depreciation filings, the suggested modifications would not result in any such deficiencies and would ensure that sufficient information continues to be available to assess the appropriateness of LEC depreciation filings.

CONCLUSION

The PCCO will provide LECs with the fullest opportunity to obtain the additional capital recovery flexibility needed to adequately respond to continued technological change. Appropriate safeguards exist to ensure that the Commission and other interested parties may assess the reasonableness of LEC depreciation rates in the future. Also, the PCCO affords the maximum benefits in terms of administrative cost reductions and streamlined depreciation procedures. In the event the Commission chooses not to allow the PCCO for LECs at this time, BellSouth urges the FCC to make the BFRO modifications referenced herein and elsewhere in the record in order to better meet the expressed goals of this proceeding.

Respectfully submitted,

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February 8, 1994

CERTIFICATE OF SERVICE

I hereby certify that I have this 8th day of February, 1994 serviced all parties of this action with a copy of the foregoing COMMENTS in reference to CC 92-296, by placing a true and correct copy of the same in the United States Mail, postage prepaid, addressed to the parties as set forth on the attached service list.

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